LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7496
BILL NUMBER: HB 2048

DATE PREPARED: Jan 21, 1999
BILL AMENDED:

SUBJECT: Textbook funding.

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FUNDS AFFECTED: **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues			
State Expenditures			69,300,000
Net Increase (Decrease)			(69,300,000)

LOCAL IMPACT	CY 1999	CY 2000	CY 2001
Local Revenues		7,300,000	13,900,000
Local Expenditures			
Net Increase (Decrease)		7,300,000	13,900,000

Summary of Legislation: This bill has the following provisions:
(A) It provides textbooks to students in public schools at no charge to the student's family, to the extent the cost of the textbooks are reimbursed by the state.
(B) It transfers and distributes $70,000,000 annually from the Administrative Trust Fund of the lottery to school corporations for textbook reimbursement.
(C) It abolishes the public school textbook rental program and the public school textbook library program.
(D) It redefines "textbook" to include the various kinds of instructional materials that are currently eligible for state reimbursement under the textbook assistance program.
(E) It requires a school corporation to establish a textbook fund and to appropriate money from the fund to purchase and distribute textbooks.
(F) It provides an annual state textbook reimbursement distribution to school corporations equal to $85

multiplied by the school corporation's average daily membership (ADM) for the previous school year. (G) It makes conforming changes and adds transitional provisions.

Effective Date: July 1, 1999; July 1, 2000.

Explanation of State Expenditures: This bill has the following provisions:

Textbook Grants: School corporations would be eligible for state funding based on a state grant per ADM of $85. The added costs to the State General Fund are based on projected ADM (Average Daily Membership) multiplied by $85. Students in nonpublic schools would also receive $85 per student For public schools, the added costs would be $81.4 million in FY 2000, $81.8 million in FY 2001 and $82.1 million in FY 2002.

Elimination of State Appropriation for Textbooks: The State General Fund currently appropriates $12.5 million to pay for a portion of the costs of textbook rental fees that are waived by school corporations for children of families who qualify for the Federal Free Lunch Program. Since the portion of the program pertaining to public schools would be abolished, the State General Fund would realize a savings of $12.4 million annually.

Poor Relief/Reduction of PTRC: The state pays 20% Property Tax Replacement Credit (PTRC) on poor relief levies. The reduction in the poor relief levy explained under local revenues will result in a reduction in the amount of $73,000 paid by PTRC (20% of $366,000). PTRC is paid from the Property Tax Replacement Fund which is supplemented by the State General Fund. Therefore, any reduction in PTRC actually reduces expenditures from the State General Fund.

FY	Textbook Adopted	State Grant	Less State Reimbursement	less: Reduction in PTRC	Net Cost
2001	Miscellaneous	$81.8M	($12.4M)	($0.1M)	$69.3M
2002	Reading/Handwriting	$82.1M	($12.4M)	($0.1M)	$69.6 M
2003	Language Arts	$82.5M	($12.4M)	($0.1M)	$70.0 M

Textbook Reimbursement Fund: This bill establishes the Textbook Reimbursement Fund for the purpose of providing money to reimburse school corporations for the cost of providing textbooks to students. It also transfers $70 million from the Lottery's Administrative Trust Fund to the Textbook Reimbursement Fund for each fiscal year beginning in FY 2000. This transfer is to occur after the $30 million transfer to the Teachers' Retirement Fund (TRF) and the $10 million transfer to the Pension Relief Fund (PRF). Currently, lottery revenue remaining after the transfers to TRF and PRF is distributed to the Lottery and Gaming Surplus Account (LGSA) within the Build Indiana Fund (BIF). Revenue from the riverboat wagering tax, the parimutuel wagering tax, and charity gaming is also deposited in the LGSA.

The following table shows projected lottery net income, transfers, and surplus lottery revenue distributions to the LGSA. It is estimated that the net income will be approximately $180 million in FY 99. This analysis is based on the assumption that the net income remains constant in FY 2000 and beyond.

Projected Lottery Net Income, Transfers, and Surplus Revenue Distributions to the LGSA (in millions):

Projected Revenue and Transfers	FY2000	FY 2001
Lottery Net Income	$180	$180
TRF Transfer	($30)	($30)
PRF Transfer	($10)	($10)
Textbook Reimbursement Fund Transfer	($70)	($70)
Surplus Lottery Revenue to the LGSA	$70	$70

A statutorily-determined amount of revenue in the LGSA is transferred each year to the Motor Vehicle Excise Tax Replacement Account (MVETRA) within the state General Fund. A portion of money remaining in the LGSA is then transferred to the State and Local Capital Projects Account. Based on projected lottery and gaming revenue to be deposited in the LGSA, there should be enough money in FY 2000 and FY 2001 to cover the transfers to MVETRA, with money remaining for state and local projects. Therefore, no State General Fund appropriation will be necessary.

Explanation of State Revenues:

Explanation of Local Expenditures: While school corporations would continue to pay the costs of textbooks, they would recover their costs from a state grant rather than from the current sources of funds which are explained below. The projected revenue from the state grant is projected to exceed the revenue from these current sources thereby reducing local school expenditures.

Explanation of Local Revenues: School corporations currently recover their expenditures for textbooks from textbook rental fees, sales of used textbooks, state reimbursement for the textbooks for children who qualify for the Federal Free Lunch Program and financial assistance from township trustees. As proposed by this bill, school corporations would now recover their costs through a state grant of $85 per ADM and eliminate all other revenue sources. Consequently, textbook rental fees would no longer be charged and schools would no longer receive payments from either the current Textbook Reimbursement Program funded by the State General Fund or from township trustees.

The following table compares the projected costs and revenues to school corporations under current law to the projected costs and revenues as proposed by this bill.

Estimate Based on Current Law: Under current law, the revenues that school corporations receive from textbook fees and sales are projected to continue increasing at a rate of 2.4% annually. Reimbursements from the State General Fund for textbook reimbursements and assistance from township trustees are assumed to remain at the 1998 level. Textbook purchases are projected to increase by 6.2% annually. The difference between projected revenues and expenditures are shown in the column noted “Net Difference” These projections show that generally costs will exceed the collected revenues assuming that the projected trends occur.

Estimate Based on Proposed Bill: As proposed by this bill, school corporations would receive revenue from a state grant based on each corporation’s ADM. This grant revenue, estimated to be approximately $83 million per year, is projected to exceed the revenue that school corporations currently receive from four other general sources. The townships’ maximum levies would be reduced by $366,000 which will translate into a gross property tax reduction in the same amount. Taxpayers would receive net property tax relief (after

PTRC) of about $292,800. The projected savings for local units of government in future years is based on reported expenditures of $366,000 for CY 1998.

Also, under current law, school corporations may provide free textbooks through elementary and high school libraries if 51% of the registered voters in the school district approve a referendum. This bill would reduce the General Fund levy of school corporations that currently provide free textbooks. LSA staff was not able to identify any school corporations that provide free textbooks through this statute.

Net Change: The final column in the table below shows the difference between the net differences of the two sets of projections. Overall, when comparing the differences in projections between current law and this proposed bill, school corporations would realize additional revenues of an estimated $7.3 million in CY 2000, $13.9 million in CY 2001 and $13.0 in CY 2002 under this bill.

	Estimate Based on Current Law			Estimate Based on Proposed Bill				
CY	Projected Revenue	Projected Costs	Net Diff.	State Grant	Projected Costs	less: Trustees Assistance	Net Diff.	Net Change
2000	$33.6M	($37.1M)	($3.5M)	$40.8M	($37.1M)	$0.1M	$3.8M	$7.3M
2001	$68.4M	($66.7M)	$1.7M	$82.0M	($66.7M)	$0.3M	$15.6M	$13.9M
2002	$69.7M	($82.4M)	($12.7M)	$82.4M	($82.4M)	$0.3M	$0.3M	$13.0M

State Agencies Affected: Department of Education, State Board of Tax Commissioners, Lottery Commission, Treasurer of State.

Local Agencies Affected: School Corporations.

Information Sources: Department of Education Data Bases; Local Government Data Base; Lottery Commission; Indiana Gaming Commission.